

## Workshop on Trade Capacity-Building and the U.S.–CAFTA



# The US-CAFTA in Context

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**NATHAN**  
ASSOCIATES INC.

# Presidential announcement

Today I announce that the United States will explore a free trade agreement with the countries of Central America. My Administration will work closely with Congress towards this goal. Our purpose is to strengthen the economic ties we already have with these nations to reinforce their progress toward economic, political, and social reform ... and to take another step toward completing the Free Trade Area of the Americas.

*President George W. Bush*

*January 16, 2002*



# Presidential announcement

(continued)

- President Bush's announcement is a culmination of two processes
  - Economic, political, and social reforms
  - Trade initiatives



# Why are we here?

- Economic, political, and social reforms
- Trade initiatives
- How an FTA differs from other trade initiatives
- Benefits of US-CAFTA
- Challenges of US-CAFTA
- Trade capacity-building mandate



# **Economic, Political, and Social Reforms**

# Reforms—Peace process milestones

- Guatemala—1993-1995
- El Salvador—1991-1997
- El Salvador/Honduras—1998 border demarcation treaty
- Nicaragua—1990 agreement on nationwide elections





# Reforms—Constitutional reform

- Guatemala—January 1994 referendum on reforms
- El Salvador—peace process drives reforms to 1993 constitution
- Honduras—1981-1982 return to civilian rule, new constitution
- Nicaragua—1995, 2000 reforms



# Reforms—Free elections

- Guatemala—December 1999
- El Salvador—March 1999 (third consecutive democratic presidential election since 1984)
- Honduras—November 2001 (sixth consecutive democratic election since 1981)
- Nicaragua: November 2001 (fourth consecutive democratic election since 1990)





# Reforms—U.S. Goal

- Additional improvements in
  - Human rights
  - Rule of law
  - Anticorruption



# Reforms—Privatization and economic policy

- Guatemala
  - Government sector shrinking
- El Salvador
  - Free market policy initiatives, including
    - Privatization of banking system, telecommunications, public pensions, electrical distribution and some electrical generation
    - Elimination of price controls on virtually all consumer products
    - Enhancement of the investment climate



# Reforms—Privatization and economic policy (continued)

- Honduras
  - Lags in structural reform
  - Telephone and energy distribution companies still publicly owned
- Nicaragua
  - Slow progress with some significant privatization
- Costa Rica
  - Dependent on Intel and tourism
  - Reforms and privatization lag
  - Inflation



# Reforms—Expropriation

- Nicaragua
  - Unresolved Sandinista-era claims
- Costa Rica
  - Longstanding, unresolved claims
  - No action against squatters on foreign-owned properties



# **Trade Initiatives**

# Trade initiatives—Importance of United States

- U.S. trade and investment—hub and spoke?
  - United States is each country's number one
    - Export market
    - Source of imports
    - Source of investment
  - Remittances from nationals in United States
    - Major source of foreign exchange





# Trade initiatives—CBI I

- Caribbean Basin Economic Recovery Act (CBI I) went into effect in January 1984
  - To respond to economic (debt) crisis
  - Presidential authority to provide duty-free treatment to imports of eligible articles



# Trade initiatives—CBI II

- Caribbean Basin Economic Recovery Expansion Act (CBI II) went into effect effective in August 1990
  - Made CBI-I benefits permanent past September 1995
  - Additional assistance, including scholarship program and tourism promotion



# Trade initiatives—CBI I and CBI II

- Product coverage
  - Important exceptions such as textiles, leather, petroleum, sugar, beef
- Principle of conditionality
  - Communism, expropriation, extradition, IPR, trade preferences, labor



# Trade initiatives—NAFTA

- North American Free Trade Agreement (NAFTA) went into effect in January 1994
- Perceived disadvantage *vis-à-vis* Mexican products



# Trade initiatives—CBTPA

- Caribbean Basin Trade Partnership Act (CBTPA)
  - Hurricane Mitch (October 1998)
  - African Growth and Opportunity Act (AGOA)
  - Enhanced temporary trade benefits
    - NAFTA parity
    - Expanded (but not complete) product coverage
    - Special textile provisions (807/809)
  - New conditions
    - Customs administration and transshipment
    - Tied to FTAA timing
    - Meetings with USTR on NAFTA docking or separate agreement



# Trade initiatives—Others

- Trade Promotion Authority (fast-track)
  - New possibilities for bilateral FTAs
  - New conditions on U.S. negotiators
    - Labor, Environment, Agriculture, Textiles
- Central American Common Market (CACM)
- Free Trade Area of the Americas (FTAA)
- World Trade Organization—Doha Round





# **How an FTA Differs from Other Trade Initiatives**

# How an FTA differs from other trade initiatives

## **Free Trade Agreement**

Reciprocal

Permanent

Binding dispute  
settlement

## **Preferential Trade Arrangement**

Unilateral

Can be revoked/  
terminated

Denial of benefits

# **Benefits of US-CAFTA**

# Benefits for the United States

- Commercial interests
- Strengthen democracy and social values
- Promote trade and development in the region
- Level the playing field
- Momentum for the FTAA negotiations



# Benefits for the CA-5

- Lock in political and economic reforms
  - Support fragile democracies
  - Encourage/require further economic reforms
  - Lock in reforms with binding dispute settlement mechanism
  - Attract FDI

# **Challenges of US–CAFTA and the Trade Capacity- Building Mandate**



# Challenges of US–CAFTA

- Transition issues, especially rural development—The NAFTA experience
- Politically sensitive sectors—Both sides
  - Agriculture
  - Poultry/dairy/corn
  - Sugar/citrus/meat
  - Textiles/apparel
  - Government monopolies



• Labor

# Trade capacity building

- Political imperative of Seattle
- Doha Round
- FTAA Quito Ministerial
- U.S. commitment
  - Preparing for negotiations
  - Implementation of obligations
  - Benefiting from the agreement

